

**East Tennessee Community Services Agency**

**For the Year Ended  
June 30, 2002**

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Financial/compliance audits of community services agencies are available on-line at  
[www.comptroller.state.tn.us/sa/reports/index.html](http://www.comptroller.state.tn.us/sa/reports/index.html).  
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STATE OF TENNESSEE  
**COMPTROLLER OF THE TREASURY**

State Capitol  
Nashville, Tennessee 37243-0260  
(615) 741-2501

John G. Morgan  
Comptroller

August 14, 2003

The Honorable Phil Bredesen, Governor  
and  
Members of the General Assembly  
State Capitol  
Nashville, Tennessee 37243  
and  
Board of Directors  
East Tennessee Community Services Agency  
P.O. Box 630  
Clinton, Tennessee 37717-0630

Ladies and Gentlemen:

Transmitted herewith is the financial and compliance audit of the East Tennessee Community Services Agency for the year ended June 30, 2002. You will note from the independent auditor's report that an unqualified opinion was given on the fairness of the presentation of the financial statements.

Consideration of internal control over financial reporting and tests of compliance disclosed a deficiency, which is detailed in the Results of the Audit section of this report. The agency's management has responded to the audit finding; the response is included following the finding. The Division of State Audit will follow up the audit to examine the application of the procedures instituted because of the audit finding.

Sincerely,

John G. Morgan  
Comptroller of the Treasury

JGM/mb  
03/064

State of Tennessee

# Audit Highlights

Comptroller of the Treasury

Division of State Audit

Financial and Compliance Audit  
**East Tennessee Community Services Agency**  
For the Year Ended June 30, 2002

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## AUDIT OBJECTIVES

The objectives of the audit were to consider the agency's internal control over financial reporting; to determine compliance with certain provisions of laws, regulations, and contracts; to determine the fairness of the presentation of the financial statements; and to recommend appropriate actions to correct any deficiencies.

## COMPLIANCE FINDING

The agency's Interim Executive Director donated assets to a related party without proper approvals.

## OPINION ON THE FINANCIAL STATEMENTS

The opinion on the financial statements is unqualified.

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"Audit Highlights" is a summary of the audit report. To obtain the complete audit report, which contains all findings, recommendations, and management comments, please contact

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**Audit Report**  
**East Tennessee Community Services Agency**  
**For the Year Ended June 30, 2002**

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**TABLE OF CONTENTS**

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	<u>Exhibit</u>	<u>Page</u>
<b>INTRODUCTION</b>		1
Post-Audit Authority		1
Background		1
<b>AUDIT SCOPE</b>		2
<b>OBJECTIVES OF THE AUDIT</b>		2
<b>PRIOR AUDIT FINDINGS</b>		2
<b>OBSERVATIONS AND COMMENTS</b>		2
<b>RESULTS OF THE AUDIT</b>		4
Audit Conclusions		4
Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i>		5
Finding and Recommendation		7
Finding - The agency's Interim Executive Director donated assets to a related party without proper approvals		7
<b>FINANCIAL SECTION</b>		
Independent Auditor's Report		8
Management's Discussion and Analysis		10
Financial Statements		
Statement of Net Assets	A	18

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## TABLE OF CONTENTS (CONT.)

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	<u>Exhibit</u>	<u>Page</u>
Statement of Activities	B	19
Balance Sheet—General Fund	C	20
Statement of Revenues, Expenditures, and Changes in Fund Balance—General Fund	D	21
Notes to the Financial Statements		22
Required Supplementary Information		
Schedule of Pension Funding Progress		31
Other Supplementary Information		
Budgetary Comparison Schedule		32
<b>APPENDIX</b>		33
Board of Directors		33

# **East Tennessee Community Services Agency For the Year Ended June 30, 2002**

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## **INTRODUCTION**

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### **POST-AUDIT AUTHORITY**

This is a report on the financial and compliance audit of the East Tennessee Community Services Agency. The audit was conducted pursuant to Section 37-5-313, *Tennessee Code Annotated*, which authorizes the Comptroller of the Treasury to “make an annual audit of the program established by this part as part of the comptroller’s annual audit pursuant to Section 9-3-211.”

### **BACKGROUND**

Tennessee’s 12 community health agencies were created by Chapter 567 of the Public Acts of 1989, known as the Community Health Agency Act of 1989. This legislation established a defined system of health services to make health care available to the indigent citizens of Tennessee. The community health agencies determined areas of need in their geographic areas and ensured that services were available to meet those needs.

In May 1996, the Community Services Agency Act of 1996 replaced the community health agencies with the community services agencies. The purpose of these agencies is to coordinate funds and programs designated for care of children and other citizens in the state.

The East Tennessee Community Services Agency serves the following counties: Anderson, Blount, Campbell, Claiborne, Cocke, Grainger, Hamblen, Jefferson, Loudon, Monroe, Morgan, Roane, Scott, Sevier, and Union. The agency’s administrative offices are in Clinton, Tennessee.

The governing body of the East Tennessee Community Services Agency is the board of directors. As of June 30, 2002, the board was composed of 16 members. (See Appendix.) An executive committee, consisting of five board members, has the authority to act on behalf of the board of directors in the management of the agency’s property, affairs, and funds in extraordinary circumstances when the governing board cannot convene.

The agency’s programs are carried out by staff under the supervision of the executive director, who is appointed by the Commissioner of the Department of Children’s Services, subject to the approval of the board.

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## AUDIT SCOPE

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The audit was limited to the period July 1, 2001, through June 30, 2002, and was conducted in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Financial statements are presented for the year ended June 30, 2002. The East Tennessee Community Services Agency has been included as a component unit in the *Tennessee Comprehensive Annual Financial Report*.

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## OBJECTIVES OF THE AUDIT

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The objectives of the audit were

1. to consider the agency's internal control over financial reporting to determine auditing procedures for the purpose of expressing an opinion on the financial statements;
2. to determine compliance with certain provisions of laws, regulations, and contracts;
3. to determine the fairness of the presentation of the financial statements; and
4. to recommend appropriate actions to correct any deficiencies.

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## PRIOR AUDIT FINDINGS

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There were no findings in the prior audit report.

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## OBSERVATIONS AND COMMENTS

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As noted in prior audits, the East Tennessee Community Services Agency has entered into contracts with the Departments of Children's Services and Health, specifying that the community services agency (CSA) would assist in implementing various state programs. However, the department's participation in these contracts was greater than indicated in the



contracts. Through these contracts, state officials directly supervised CSA employees. And although these CSA employees' salaries, travel costs, and other program costs were paid by the CSA, the Departments of Children's Services and Health reimbursed the CSA for these costs, including the CSA's administrative costs for serving as a fiscal agent. These contracts appear to create "employer-employee" relationships between the departments and these individuals.

Programs under the supervision of the Department of Children's Services included Children and Family Services, Family Support Services, Flexible Funding, and Emergency Residential. According to the CSA organization chart at the Department of Children's Services, several CSA employees reported to Department of Children's Services supervisors. Some of these CSA employees were secretaries for the department's regional administrative staff.

Programs under the supervision of the Department of Health included Children's Special Services Care Coordination and Local Health Services. The programs were operated from the county or regional health offices with CSA staff. Department of Health employees supervised the CSA staff, and new CSA employees were either selected or approved by Department of Health supervisors. In some instances, the regional health director was responsible for operating the program.

The practice of allowing employees of non-state entities such as the community services agencies to report directly to officials or employees of the Departments of Children's Services and Health, in carrying out what can be construed as state programs, raises policy and legal issues. We do not believe these situations should be accepted as a matter of policy. Section 37-5-314, *Tennessee Code Annotated*, considers CSA employees "state employees" for the purposes of negligent acts or omissions within the scope of their authority. However, Section 37-5-315(2), *Tennessee Code Annotated*, states: "This part shall not be construed as creating an employer-employee relationship between the department, the community services agencies or their contractors." This legal concern arises from the legislative intent that the department not create an employer-employee relationship with community services agencies and a review of the factors commonly used in determining the existence of an employer-employee relationship. These factors include the Departments of Children's Services' and Health's ability to direct and control the work of CSA employees they supervise. These relationships also create inherent problems for the Departments of Children's Services' and Health's supervisory personnel in that they have less direct control over the performance of CSA case managers.

In addition, the state apparently has incurred additional cost by contracting with non-state entities to operate programs. Over the years, the CSAs have operated programs for various departments of the state. In addition to direct program costs, the CSAs have received funding from each state department to defray the costs of administration. These costs included the salaries and benefits of the executive director and fiscal officer and costs of travel, supplies, and equipment used by the administrative staff.

The most recent audits of the Departments of Children's Services and Health include an audit finding on these inappropriate contracts with the East Tennessee Community Services Agency and other CSAs serving the department.

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## RESULTS OF THE AUDIT

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### AUDIT CONCLUSIONS

#### Internal Control

As part of the audit of the East Tennessee Community Services Agency's financial statements for the year ended June 30, 2002, we considered internal control over financial reporting to determine auditing procedures for the purpose of expressing an opinion on the financial statements, as required by auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Consideration of internal control over financial reporting disclosed no material weaknesses.

#### Compliance

The results of our audit tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. An immaterial instance of noncompliance, along with the recommendation and management's response, is included in the finding and recommendation section.

#### Fairness of Financial Statement Presentation

The Division of State Audit has rendered an unqualified opinion on the East Tennessee Community Services Agency's financial statements.



STATE OF TENNESSEE  
**COMPTROLLER OF THE TREASURY**  
DEPARTMENT OF AUDIT  
DIVISION OF STATE AUDIT  
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NASHVILLE, TENNESSEE 37243-0264  
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FAX (615) 532-2765

**Report on Compliance and on Internal Control  
Over Financial Reporting Based on an Audit of  
Financial Statements Performed in Accordance With  
*Government Auditing Standards***

April 17, 2003

The Honorable John G. Morgan  
Comptroller of the Treasury  
State Capitol  
Nashville, Tennessee 37243

Dear Mr. Morgan:

We have audited the financial statements of the East Tennessee Community Services Agency, a component unit of the State of Tennessee, as of and for the year ended June 30, 2002, and have issued our report thereon dated April 17, 2003. As discussed in Note 12 to the financial statements, the East Tennessee Community Services Agency implemented Governmental Accounting Standards Board Statements No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*; and 37, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments: Omnibus—an amendment of GASB Statements No. 21 and No. 34*. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the East Tennessee Community Services Agency's financial statements are free of material misstatement, we performed tests of the agency's compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

We did, however, note a certain immaterial instance of noncompliance that we have included in the Finding and Recommendation section of this report. We also noted a certain other less significant instance of noncompliance that we have reported to the agency's management in a separate letter.

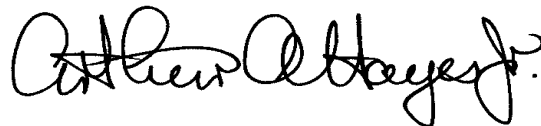
#### Internal Control Over Financial Reporting

In planning and performing our audit, we considered the East Tennessee Community Services Agency's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

However, we noted other matters involving the internal control over financial reporting that we have reported to the agency's management in a separate letter.

This report is intended solely for the information and use of the General Assembly of the State of Tennessee, the board of directors, and management, and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record.

Sincerely,

A handwritten signature in black ink, appearing to read "Arthur A. Hayes, Jr.", with a stylized flourish at the end.

Arthur A. Hayes, Jr., CPA,  
Director

AAH/mb

## **FINDING AND RECOMMENDATION**

### **The agency's Interim Executive Director donated assets to a related party without proper approvals**

#### **Finding**

The Interim Executive Director of the East Tennessee Community Services Agency, in violation of agency policy, donated surplus agency assets to a nonprofit organization without obtaining the required approvals. The assets were donated to the Emergency Youth Shelter. The Director of the Emergency Youth Shelter is also the chairman of the agency's board of directors.

According to Internal Operations Policy 3.20, *Disposal of Agency Assets*, the Executive Director should present a written listing of items deemed damaged or obsolete to the board of directors for approval in declaring the items surplus and also submit a plan of disposal for board approval. Once the board approves the plan, the Executive Director should submit it to the Commissioner of Children's Services or his designee for approval. "Upon written confirmation of the Commissioner's approval, the Executive Director or designee shall then take such steps as appropriate to implement the Board's surplus assets disposal plan." The Interim Executive Director did not obtain any approvals, either from the board or the Commissioner, prior to the disposition of the assets.

Once the agency's current Executive Director was hired, he had the board review the circumstances surrounding the donation issue at its next regularly scheduled meeting. The disposition of the assets by donation to the Emergency Youth Shelter was then approved by the board. The current Executive Director has also requested approval from the Commissioner of the Department of Children's Services. However, that approval has not been received.

#### **Recommendation**

The Executive Director should continue to seek approval from the Commissioner of Children's Services for the donation. If the Commissioner does not believe the donation was appropriate, then the Executive Director should seek recovery of the assets and work with the Commissioner to formulate another plan of disposition. Any such donations in the future should have appropriate approvals prior to donation or disposal.

#### **Management's Comment**

We concur with the audit finding for the fiscal year ended June 30, 2002, in regard to the agency's disposition of surplus assets. Management will continue to seek approval of the subject transaction from the Commissioner of Children's Services or his designee. Cost effective remedial action will be taken if deemed appropriate. Future dispositions of surplus assets will be accomplished pursuant to the requirements of the agency's Internal Operations Policy 3.20, *Disposal of Agency Assets*.



STATE OF TENNESSEE  
**COMPTROLLER OF THE TREASURY**  
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DIVISION OF STATE AUDIT  
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NASHVILLE, TENNESSEE 37243-0264  
PHONE (615) 401-7897  
FAX (615) 532-2765

**Independent Auditor's Report**

April 17, 2003

The Honorable John G. Morgan  
Comptroller of the Treasury  
State Capitol  
Nashville, Tennessee 37243

Dear Mr. Morgan:

We have audited the accompanying financial statements of the governmental activities and the general fund of the East Tennessee Community Services Agency, a component unit of the State of Tennessee, as of and for the year ended June 30, 2002, which collectively comprise the agency's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the agency's management. Our responsibility is to express an opinion on these financial statements, based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the general fund of the East Tennessee Community Services Agency as of June 30, 2002, and respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Honorable John G. Morgan  
April 17, 2003  
Page 2

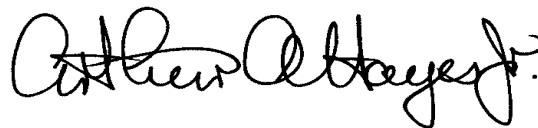
As discussed in Note 12, the East Tennessee Community Services Agency implemented Governmental Accounting Standards Board Statements No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*; and 37, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments: Omnibus—an amendment of GASB Statements No. 21 and No. 34*.

The management's discussion and analysis and the Schedule of Pension Funding Progress for East Tennessee Community Services Agency are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the agency's basic financial statements. The accompanying financial information on page 32 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 17, 2003, on our consideration of East Tennessee Community Services Agency's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, and contracts. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Sincerely,

A handwritten signature in black ink, reading "Arthur A. Hayes, Jr." in a cursive script.

Arthur A. Hayes, Jr., CPA,  
Director

AAH/mb

## MANAGEMENT'S DISCUSSION AND ANALYSIS

Management of East Tennessee Community Services Agency provides this *Management's Discussion and Analysis* for readers of the financial statements. This narrative overview and analysis of the financial activities of the East Tennessee Community Services Agency is for the fiscal year ended June 30, 2002. Because the East Tennessee Community Services Agency is implementing new reporting standards for this fiscal year with significant changes in content and structure, much of the information is not easily comparable to prior years. In future years, as prior-year information becomes available, a comparative analysis of government-wide data will be presented.

### FINANCIAL HIGHLIGHTS

#### Government-Wide Highlights:

*Net Assets* - The assets of the agency exceeded its liabilities at fiscal year ended June 30, 2002, by \$1,334,705.94 (presented as "net assets"). Of this amount, \$1,263,547.41 was reported as "unrestricted net assets." Unrestricted net assets represent the amount available to be used to meet the agency's ongoing obligations.

*Changes in Net Assets* - The agency's total net assets increased by \$234,012.65 in fiscal year 2002.

#### Fund Highlights:

*Governmental Funds - Fund Balances* - As of the close of fiscal year 2002, the agency's only governmental fund, the general fund, reported an ending fund balance of \$1,406,157.79, an increase of \$253,498.35 over the prior year. The agency's TennCare Transportation Program, net of unreimbursed expenditures in other programs, provided this increase. Of this total amount, \$1,401,687.21 represents the "unreserved fund balance."

### OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the East Tennessee Community Services Agency's basic financial statements. The basic financial statements include three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains additional required supplementary information (the Schedule of Pension Funding Progress) and supplementary information which is not required (the Budgetary Comparison Schedule), in addition to the basic financial statements. These components are described below:

#### Basic Financial Statements

The basic financial statements include two kinds of financial statements that present different views of the agency – the *Government-Wide Financial Statements* and the *Fund Financial*



**Statements.** These financial statements also include the *Notes to the Financial Statements* that explain some of the information in the financial statements and provide more detail.

### ***Government-Wide Financial Statements***

The *government-wide financial statements* provide a broad view of the agency's operations using accounting methods similar to a private-sector business. The statements provide both short-term and long-term information about the agency's financial position, which assists in assessing the agency's economic condition at the end of the fiscal year. These are prepared using the economic resources measurement focus and the accrual basis of accounting. They take into account all revenues and expenses connected with the fiscal year even if cash involved has not been received or paid. The government-wide financial statements include two statements:

The *statement of net assets* presents all of the government's assets and liabilities, with the difference between the two reported as "net assets." Over time, increases or decreases in the agency's net assets may serve as a useful indicator of whether the financial position of the agency is improving or deteriorating.

The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will not result in cash flows until future fiscal periods (such as earned but unused vacation leave). This statement also presents a comparison between direct expenses and program revenues for each of the agency's programs.

The type of activity is:

*Governmental Activities* - All of the agency's services are included here. Most of the agency's basic services are providing help to children and families and transportation for TennCare enrollees. These activities are supported primarily by governmental revenues (state grants) and revenue from TennCare Managed Care Organizations and Behavioral Health Organizations

The government-wide financial statements can be found immediately following this discussion and analysis.

### ***Fund Financial Statements***

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The agency, like other agencies and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The fund financial statements focus on individual parts of the agency government, reporting the agency's operations in more detail than the government-wide statements. The agency has only one category of funds: Governmental Funds.

*Governmental Funds Financial Statement* - The basic services provided by the agency are financed through governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, the governmental fund financial statements focus on near-term inflows and outflows of spendable resources. They also focus on the balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the government's near-term financing requirements. This approach is known as using the current financial resources measurement focus and the modified accrual basis of accounting. These statements provide a detailed short-term view of the agency's finances that assists in determining whether there will be adequate financial resources available to meet the current needs of the agency. Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and the governmental activities. These reconciliations are presented on the same pages as the governmental fund financial statements. The agency has one governmental fund, the General Fund. The basic governmental fund financial statements can be found immediately following the government-wide statements.

### ***Notes to the Financial Statements***

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and the fund financial statements. The notes to the financial statements can be found immediately following the fund financial statements.

### **Required Supplementary Information**

The basic financial statements are followed by the required supplementary information, which consists of the Schedule of Pension Funding Progress.

### **Supplementary Information**

The Budgetary Comparison Schedule is presented as supplementary information. It follows the required supplementary information.

## **FINANCIAL ANALYSIS**

### **Net Assets**

As noted earlier, net assets may serve over time as a useful indicator of an agency's financial position. The agency's net assets (governmental activities) totaled \$1,334,705.94 at the end of 2002, compared to \$1,100,693.29 at the end of the previous year.

## ETCSA's NET ASSETS

### Governmental Activities

	<u>2002</u>
Current and other assets	\$1,940,938.78
Capital assets	<u>71,158.53</u>
<b>Total assets</b>	<b>2,012,097.31</b>
Current and other liabilities	534,780.99
Long-term liabilities	<u>142,610.38</u>
<b>Total liabilities</b>	<b>677,391.37</b>
Net assets	
Invested in capital assets	71,158.53
Unrestricted	<u>1,263,547.41</u>
<b>Total net assets</b>	<b><u>\$1,334,705.94</u></b>

### Changes in Net Assets

Revenues of the agency's TennCare Transportation Unit exceeded that unit's expenses by \$371,988 and agency LGIP investments earned interest income in the amount of \$31,321. These increases in net assets were offset by \$169,296 of unreimbursed expenses for items accrued but not paid, community development programs and administrative costs.

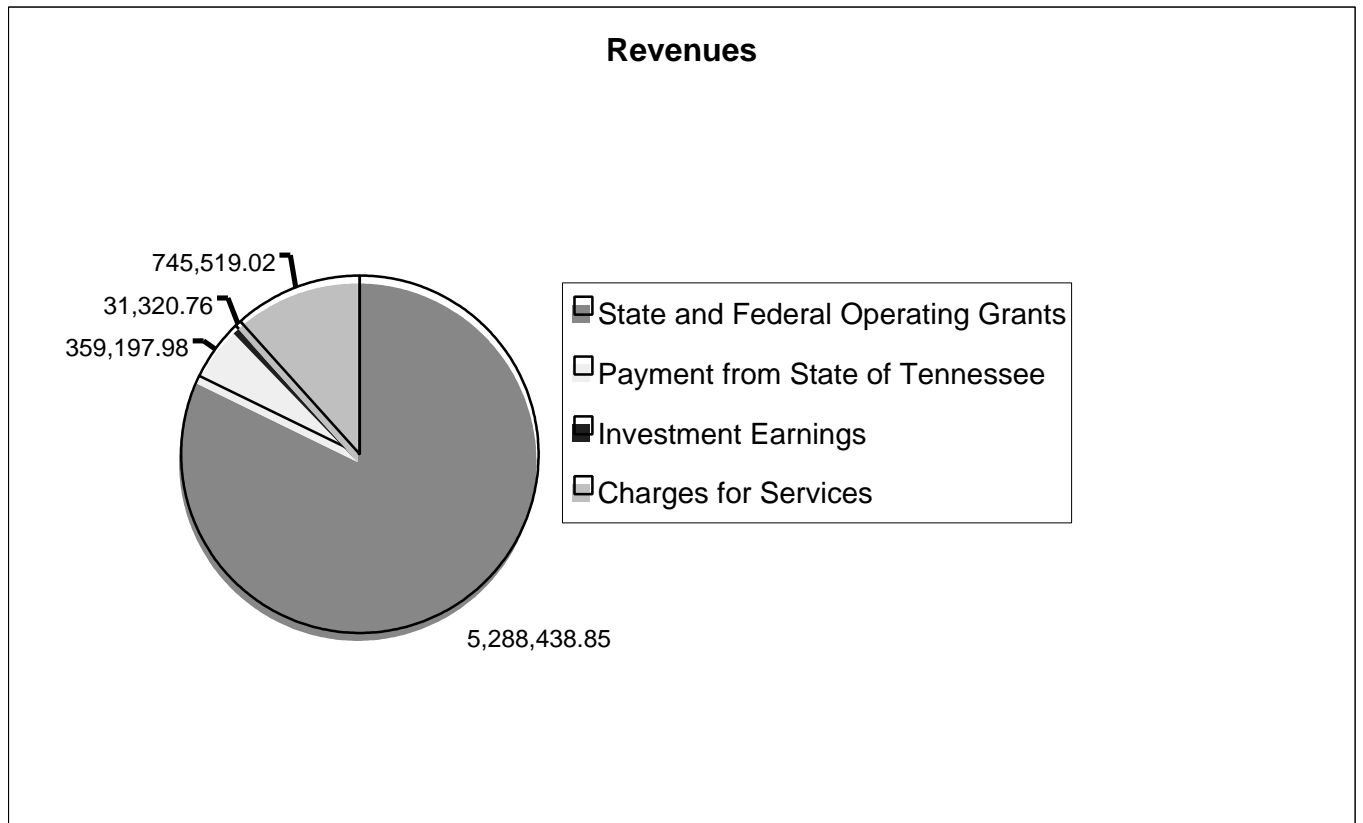
## CHANGES IN ETCSA's NET ASSETS

### Governmental Activities

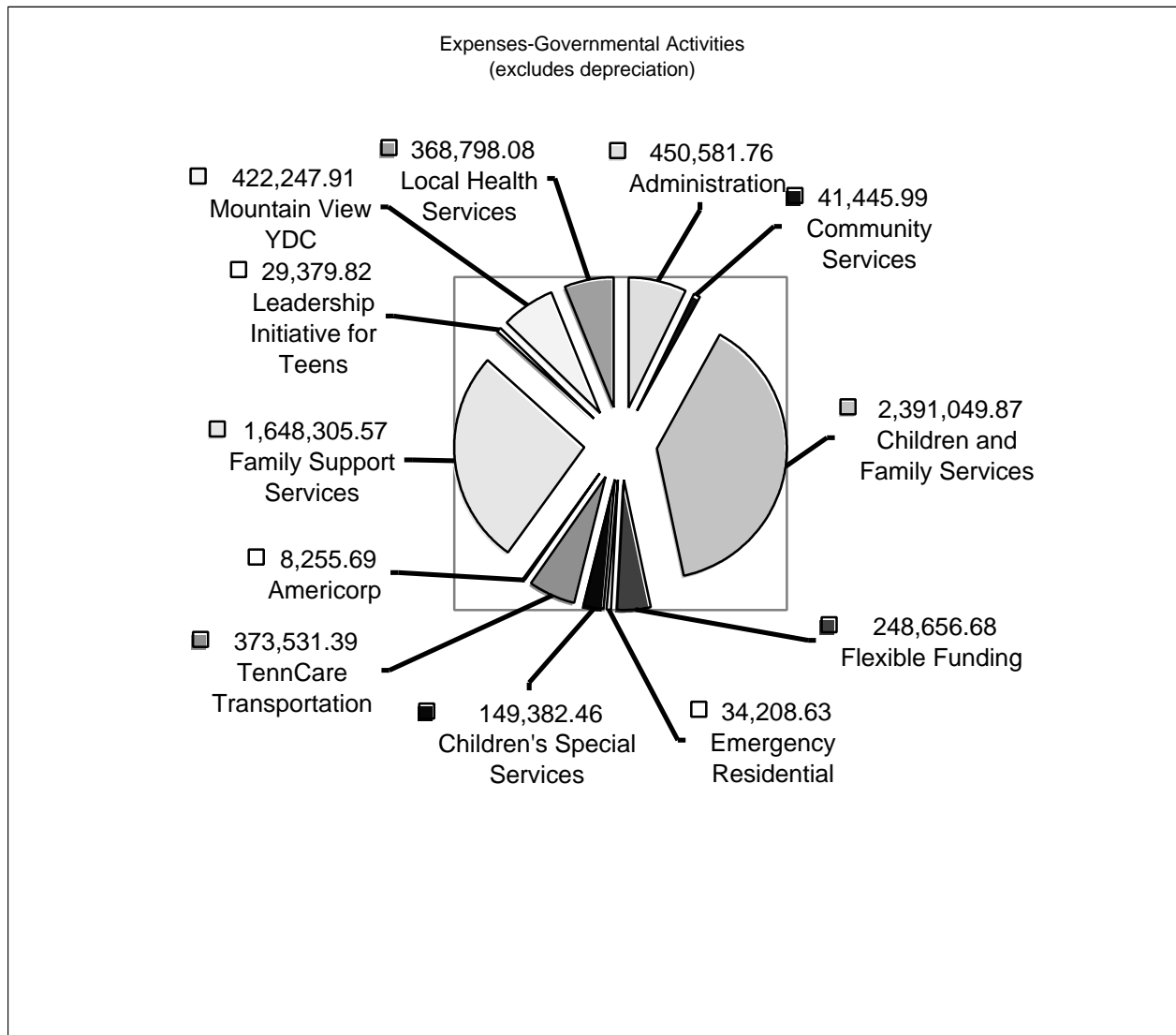
	<u>2002</u>
<b>Revenues</b>	
Program revenues	
Charges for services	\$ 745,519.02
State grants and contracts	5,100,251.84
Federal grants and contracts	182,465.01
Other	5,722.00
General revenues	
Payment from state	359,197.98
Interest	<u>31,320.76</u>
<b>Total revenues</b>	<b>6,424,476.61</b>
<b>Expenses</b>	
Administration	450,581.76
Children and family services	2,391,049.87
Family support services	1,648,305.57
Flexible funding	248,656.68
Emergency residential	34,208.63
Mountain View	422,247.91
TennCare transportation	373,531.39

Children's special services	149,382.46
Local health	368,798.08
Americorp Promise Fellows	8,255.69
Community services	41,445.99
Leadership Initiative for Teens	29,379.82
Depreciation – unallocated	<u>24,620.11</u>
<b>Total expenses</b>	<b><u>6,190,463.96</u></b>
<b>Increase in net assets</b>	<b><u>\$ 234,012.65</u></b>

### Revenues by Source



## Expenses by Program



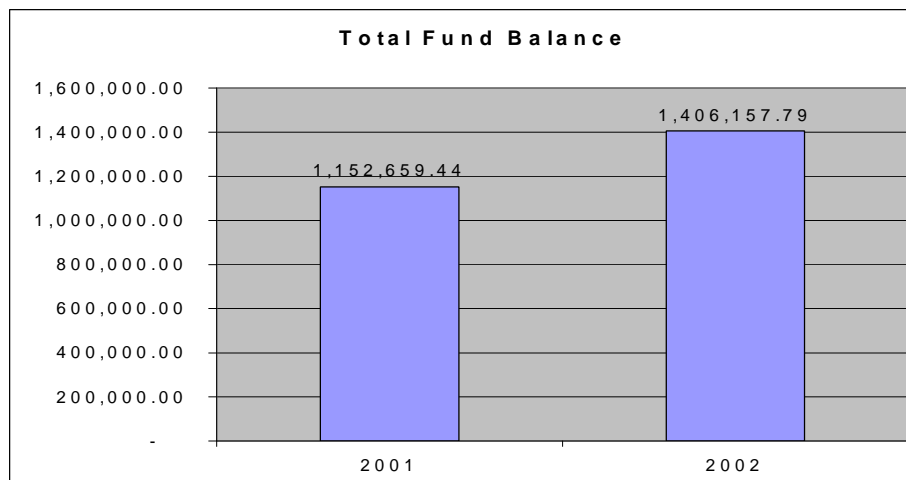
## FINANCIAL ANALYSIS OF THE AGENCY'S INDIVIDUAL FUNDS

As noted earlier, the agency uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

### Governmental Fund

The focus of the agency's governmental fund is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the agency's financing requirements. In particular, unreserved fund balance may serve as a useful measure of an agency's net resources available for future spending. As of the end of the 2002 fiscal year, the agency's governmental fund reported an ending fund balance of \$1,406,158, an

increase of \$253,498 over the prior year. This increase does not reflect depreciation in excess of capital outlays or compensated absences earned in excess of those paid. These two items would reduce the \$253,498 to \$234,013, the amount explained in the Changes in Net Assets section above.



## **GENERAL FUND BUDGETARY HIGHLIGHTS**

Differences between the original budget and the final budget were relatively minor (\$96,165 and \$116,500 increase in revenues and expenditures, respectively). The changes resulted primarily because the agency added two new programs during the year, including Americorp (\$39,200) and Leadership Initiative for Teens (LIFT) (\$60,000). The agency also increased the salaries of certain local health employees (\$18,600) to provide equity with comparable state positions.

Budgeted revenues exceeded actual revenues by \$1,980,884 due primarily to reimbursable expenditures being less than anticipated. Unfilled positions and unspent program service dollars contributed significantly to the reduced expenditures. All budget line item amounts, as modified by seven approved plan changes during the year, were sufficient to cover the agency's actual expenditures.

## **CAPITAL ASSET AND LONG-TERM DEBT ACTIVITY**

The agency's investment in capital assets for its governmental activities as of June 30, 2002, amounts to \$167,581.35, which, net of accumulated depreciation of \$96,422.82, leaves a net book value of \$71,158.53. This agency's investment in capital assets is not considered material. The agency has no commitments for capital expenditures or debt arrangements to provide financing for facilities or services. Liabilities for future payments for compensated absences are described in detail in the Notes to the Financial Statements – Note 4.

## **ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES**

Management does foresee possibly significant changes in program funding as economic factors affect tax and grant revenues of the State of Tennessee. These changes could affect our agency since we are almost totally funded by the state; however, current court-mandated children's programs expenditures should serve as an alleviating factor.

**East Tennessee Community Services Agency**  
**Statement of Net Assets**  
**June 30, 2002**

<b>Assets</b>	<b>Governmental Activities</b>
Cash (Note 2)	\$ 1,619,192.48
Due from the State of Tennessee	317,242.72
Prepaid items and security deposits	4,503.58
Capital assets (Note 3):	
Equipment	167,581.35
Less accumulated depreciation	(96,422.82)
Total assets	<u>2,012,097.31</u>
<b>Liabilities</b>	
Accrued payroll, payroll taxes, and benefits	152,945.45
Accounts payable	181,898.56
Due to the State of Tennessee	164,786.83
Due to the local government	35,150.15
Long-term liabilities:	
Portion due or payable within one year:	
Compensated absences (Note 4)	98,574.67
Portion due or payable after one year:	
Compensated absences (Note 4)	44,035.71
Total liabilities	<u>677,391.37</u>
<b>Net Assets</b>	
Invested in capital assets	71,158.53
Unrestricted	1,263,547.41
Total net assets	<u>\$ 1,334,705.94</u>

The notes to the financial statements are an integral part of this statement.



**East Tennessee Community Services Agency**  
**Statement of Activities**  
**For the Year Ended June 30, 2002**

<u>Programs</u>	<u>Program Revenues</u>				<u>Net (Expense) Revenue and Change in Net Assets</u>
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	
<b>Governmental Activities:</b>					
Administration	\$ 450,581.76	\$ -	\$ -	\$ -	\$ (450,581.76)
Children and Family Services	2,391,049.87	-	2,383,059.67	-	(7,990.20)
Family Support Services	1,648,305.57	-	1,643,005.16	-	(5,300.41)
Flexible Funding	248,656.68	-	248,656.68	-	-
Emergency Residential	34,208.63	-	34,208.63	-	-
Mountain View	422,247.91	-	422,626.11	-	378.20
TennCare Transportation	373,531.39	745,519.02	-	-	371,987.63
Children's Special Services	149,382.46	-	150,522.31	-	1,139.85
Local Health	368,798.08	-	368,695.59	-	(102.49)
AmeriCorp Promise Fellows	8,255.69	-	2,700.00	-	(5,555.69)
Community Services	41,445.99	-	5,722.00	-	(35,723.99)
LIFT	29,379.82	-	29,242.70	-	(137.12)
Depreciation - unallocated	24,620.11	-	-	-	(24,620.11)
Total	<u>\$ 6,190,463.96</u>	<u>\$ 745,519.02</u>	<u>\$ 5,288,438.85</u>	<u>\$ -</u>	<u>(156,506.09)</u>
General revenues:					
Payment from the State of Tennessee					359,197.98
Unrestricted investment earnings					<u>31,320.76</u>
Total general revenues					<u>390,518.74</u>
Change in net assets					<u>234,012.65</u>
Net assets - beginning					<u>1,100,693.29</u>
Net assets - ending					<u>\$ 1,334,705.94</u>

The notes to the financial statements are an integral part of this statement.

**East Tennessee Community Services Agency  
Balance Sheet  
General Fund  
June 30, 2002**

**Assets**

Cash (Note 2)	\$ 1,619,192.48
Due from the State of Tennessee	317,242.72
Prepaid items and security deposits	4,503.58
Total assets	<u>\$ 1,940,938.78</u>

**Liabilities and Fund Balance**

## Liabilities:

Accrued payroll, payroll taxes, and benefits	\$ 152,945.45
Accounts payable	181,898.56
Due to the State of Tennessee	164,786.83
Due to the local government	35,150.15
Total liabilities	<u>534,780.99</u>

## Fund balance:

Reserved for prepaid items	4,470.58
Unreserved	1,401,687.21
Total fund balance	<u>1,406,157.79</u>
Total liabilities and fund balance	<u>\$ 1,940,938.78</u>

**Reconciliation of the general fund balance sheet to the statement of net assets:**

Total fund balance	\$ 1,406,157.79
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Amounts reported in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in the general fund.	71,158.53
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Long-term liabilities are not due and payable in the current period and therefore are not reported as liabilities in the general fund. Long-term liabilities at year-end consist of:

Compensated absences	<u>(142,610.38)</u>
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Total net assets	<u>\$ 1,334,705.94</u>
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The notes to the financial statements are an integral part of this statement.

**East Tennessee Community Services Agency**  
**Statement of Revenues, Expenditures, and Changes in Fund Balance**  
**General Fund**  
**For the Year Ended June 30, 2002**

<b>Revenues</b>	
State grants and contracts	\$ 5,459,449.82
Federal grants and contracts	182,465.01
TennCare Transportation contracts	745,519.02
Interest	31,320.76
Donations	5,722.00
Total revenues	<u>6,424,476.61</u>
<b>Expenditures</b>	
Administration	453,067.07
Children and Family Services	2,383,059.67
Family Support Services	1,643,005.16
Flexible Funding	248,656.68
Emergency Residential	34,208.63
Mountain View	422,626.11
TennCare Transportation	388,192.66
Children's Special Services	150,522.31
Local Health	368,695.59
AmeriCorp Promise Fellows	8,255.69
Community Services	41,445.99
LIFT	29,242.70
Total expenditures	<u>6,170,978.26</u>
Excess of revenues over expenditures	<u>253,498.35</u>
Net change in fund balance	253,498.35
Fund balance - July 1, 2001	1,152,659.44
Fund balance - June 30, 2002	<u>\$ 1,406,157.79</u>

**Reconciliation of the general fund statement of revenues, expenditures, and changes in fund balance to the statement of activities:**

Net change in fund balance	\$ 253,498.35
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Amounts reported in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation expense in the period. (16,120.11)

The expense for compensated absences reported in the statement of activities does not require the use of current financial resources and, therefore, is not reported as an expenditure in governmental funds. (3,365.59)

<b>Changes in net assets of governmental activities</b>	<u>\$ 234,012.65</u>
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The notes to the financial statements are an integral part of this statement.

**East Tennessee Community Services Agency**  
**Notes to the Financial Statements**  
**June 30, 2002**

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**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Reporting Entity**

Title 37, Chapter 5, of *Tennessee Code Annotated*, established the CSA as “a political subdivision and instrumentality of the state.” The East Tennessee Community Services Agency is a component unit of the State of Tennessee and is discretely presented in the *Tennessee Comprehensive Annual Financial Report*. Although the CSA is a separate legal entity, the state is financially accountable for the CSA because the state appoints a majority of the CSA’s governing body and approves the CSA’s Plan of Operation (budget). The CSA’s reporting entity does not include any component units.

**Basis of Presentation**

The accompanying financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB).

The CSA’s basic financial statements consist of government-wide financial statements (the statement of net assets and the statement of activities) and fund financial statements (the balance sheet and the statement of revenues, expenditures, and changes in fund balance). The East Tennessee Community Services Agency does not have any proprietary or fiduciary funds, and its only governmental fund is the general fund.

The statement of net assets presents all of the CSA’s financial and capital resources including both short-term and long-term information. The statement of activities presents a comparison between the direct expenses and program revenues for each of the CSA’s programs. Direct expenses are those that are specifically associated with a program. Program revenues include (a) charges paid by the recipients for services provided by the program and (b) grants and contributions that are restricted to meeting the operational requirements of the program. Revenues that are not classified as program revenues are presented as general revenues.

**Measurement Focus and Basis of Accounting**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned, and expenses are recorded when a liability is incurred,

**East Tennessee Community Services Agency**  
**Notes to the Financial Statements (Cont.)**  
**June 30, 2002**

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regardless of the timing of related cash flows. Grants are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as they become susceptible to accrual, generally when they are measurable and become available. Revenues are considered to be available when they are collected within the current period or soon enough thereafter to pay liabilities of the current period. Revenues that the CSA earns by incurring obligations are recognized in the same period the obligations are recognized. All other revenue items are considered to be available if collected within 60 days after the end of the current period.

Expenditures are recorded when the related fund liability is incurred, except for compensated absences, which are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, are followed in the government-wide statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

**Assets and Liabilities**

Cash

Cash reported in both the government-wide and the fund financial statements consists of petty cash, demand deposits, and deposits in the Local Government Investment Pool (LGIP) administered by the State Treasurer. The liquidity of the LGIP is sufficient to cover any withdrawal request by a participant.

Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and the fund financial statements.

Capital Assets

Capital assets are defined by the CSA as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Capitalized assets are reported in the government-wide financial statements. Capitalized assets are recorded at historical cost. Donated capital assets are recorded at estimated fair

**East Tennessee Community Services Agency**  
**Notes to the Financial Statements (Cont.)**  
**June 30, 2002**

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value at the date of donation. The CSA does not own any infrastructure. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Capitalized assets are depreciated on a straight-line basis over the following estimated useful lives of the assets.

<u>Description</u>	<u>Estimated Life</u>
Copier Equipment	5 years
Telephone Equipment	7 years

**Compensated Absences**

It is the CSA's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. There is no liability for unpaid accumulated sick leave since the CSA's policy is to pay this benefit only if the employee is sick or upon death. In the government-wide financial statements, the liability for all vacation pay is accrued when earned. In the fund financial statements, a liability for these amounts is reported only if they have matured, for example, because of employee resignations and retirements.

**Budgetary Process**

Legislation requires the CSA board to submit an annual plan of operation for review and approval to the Commissioner of Children's Services, Commissioner of Finance and Administration, and the Comptroller of the Treasury. As part of this plan, the CSA is to submit a financial plan for operating and capital expenditures. This financial plan is prepared on the modified accrual basis of accounting. The Plan of Operation may be amended during the year with the written approval of the Commissioners and the Comptroller.

The agency does not have an annual appropriated budget. The Plan of Operation serves as an annual financial plan for budgetary purposes.

**NOTE 2. DEPOSITS**

The East Tennessee Community Services Agency's bank accounts are in financial institutions that participate in the bank collateral pool administered by the Treasurer of the State of Tennessee. The securities pledged to protect these accounts are pledged in the aggregate rather than against each individual account. The members

**East Tennessee Community Services Agency**  
**Notes to the Financial Statements (Cont.)**  
**June 30, 2002**

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of the pool may be required by agreement to pay an assessment to cover any deficiency. Under this additional assessment agreement, public fund accounts covered by the pool are considered to be insured for purposes of credit risk disclosure.

The East Tennessee Community Services Agency also has deposits in the Local Government Investment Pool (LGIP) administered by the State Treasurer. The LGIP is part of the Pooled Investment Fund. The fund's investment policy and custodial credit risk are presented in the *Tennessee Comprehensive Annual Financial Report*. That report may be obtained by writing to the Tennessee Department of Finance and Administration, Division of Accounts, 14<sup>th</sup> Floor William R. Snodgrass Tennessee Tower, 312 Eighth Avenue North, Nashville, Tennessee 37243-0298, or by calling (615) 741-2140.

**NOTE 3. CAPITAL ASSETS**

Capital asset activity for the year ended June 30, 2002, was as follows:

	Beginning <u>Balance</u>	<u>Increases</u>	<u>Decreases</u>	Ending <u>Balance</u>
Equipment	\$ 159,081.35	\$ 8,500.00	\$ -	\$ 167,581.35
Less accumulated depreciation	<u>(71,802.71)</u>	<u>(24,620.11)</u>	<u>-</u>	<u>(96,422.82)</u>
Total capital assets, net of depreciation	\$ <u>87,278.64</u>	\$ <u>(16,120.11)</u>	\$ <u>-</u>	\$ <u>71,158.53</u>

All capital assets essentially serve all of the CSA's programs. Therefore, all depreciation expense is reported on the statement of activities as depreciation-unallocated.

**NOTE 4. LONG-TERM LIABILITIES**

Long-term liability activity for the year ended June 30, 2002, was as follows:

**East Tennessee Community Services Agency**  
**Notes to the Financial Statements (Cont.)**  
**June 30, 2002**

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	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Compensated Absences	\$ <u>139,244.79</u>	\$ <u>156,274.10</u>	\$ <u>152,908.51</u>	\$ <u>142,610.38</u>
Total long-term liabilities	\$ <u>139,244.79</u>	\$ <u>156,274.10</u>	\$ <u>152,908.51</u>	\$ <u>142,610.38</u>

**NOTE 5. OPERATING LEASES**

The agency leases office space and equipment to carry out its activities and to administer the various grant programs. Total expenditures under operating leases for space and equipment were \$3,753.72 and \$3,922.39 for the year ended June 30, 2002. All leases except for \$3,922.39 were cancelable at the lessee's option. The noncancelable lease had a remaining term of less than one year.

In addition, the State of Tennessee has entered into cancelable lease agreements for space on behalf of the agency. Total reimbursements to the state for operating leases were \$170,260.90 for the year ended June 30, 2002. The agency is not obligated to continue making the lease payments should it discontinue use of the space.

**NOTE 6. DEFINED BENEFIT PENSION PLAN**

**Plan Description**

All full-time employees are members of the Political Subdivision Pension Plan (PSPP), an agent, multiple-employer, defined benefit pension plan administered by the Tennessee Consolidated Retirement System (TCRS). The TCRS administers a defined benefit pension plan that provides retirement, disability, and death benefits, as well as annual cost-of-living adjustments, to plan members and beneficiaries. Benefit provisions are established in state statute found in Title 8, Chapters 34-37, *Tennessee Code Annotated*. State statutes are amended by the Tennessee General Assembly. Amendments to the TCRS are not applicable to a political subdivision unless approved by the political subdivision's governing body.

The TCRS issues a publicly available financial report that includes financial statements and required supplementary information for the PSPP. The report may be obtained by writing to the Tennessee Department of the Treasury, Consolidated



**East Tennessee Community Services Agency**  
**Notes to the Financial Statements (Cont.)**  
**June 30, 2002**

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Retirement System, 10th Floor Andrew Jackson Building, 500 Deaderick Street, Nashville, Tennessee 37243-0230, or the report can be accessed at [www.treasury.state.tn.us](http://www.treasury.state.tn.us).

**Funding Policy**

As authorized by the agency's board of directors, the agency pays the total pension contribution for its employees. The agency is required to contribute an actuarially determined rate; for the year ended June 30, 2002, the rate was 7.13% of annual covered payroll. The contribution requirements of plan members are set by state statutes and approved by the political subdivision's governing body. Contribution requirements for the agency are established and may be amended by the TCRS' Board of Trustees.

**Annual Pension Cost**

The agency's annual pension cost of \$213,849 for the year ended June 30, 2002, was equal to the agency's required and actual contributions.

The required contribution for the year ended June 30, 2002, was determined as part of the July 1, 1999, actuarial valuation using the frozen initial liability actuarial cost method, a projected-benefit cost method. Significant actuarial assumptions used include (a) rate of return on investment of present and future assets of 7.5% a year compounded annually, (b) projected salary increases of 5.5% a year (no explicit assumption is made regarding the portion attributable to the effects of inflation on salaries) compounded annually, (c) projected 4.5% annual increase in the social security wage base, and (d) projected post-retirement benefit increases of 3% of the retiree's most recent benefit. The actuarial value of the agency's assets was determined using techniques that smooth the effect of short-term volatility in the market value of both fixed income and equity securities over a five-year period.

**Three-Year Trend Information**

<u>Fiscal Year Ended</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
June 30, 2002	\$213,849	100%	-
June 30, 2001	\$200,554	100%	-
June 30, 2000	\$181,973	100%	-

**East Tennessee Community Services Agency**  
**Notes to the Financial Statements (Cont.)**  
**June 30, 2002**

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**NOTE 7. OTHER POST-EMPLOYMENT BENEFITS**

The State of Tennessee administers a group health insurance program that provides post-employment health insurance benefits to eligible agency retirees. This benefit is provided and administered by the State of Tennessee. The agency assumes no liability for retiree health care programs. Information related to this plan is available at the statewide level in the *Tennessee Comprehensive Annual Financial Report*. Note 2 includes information to obtain the report.

**NOTE 8. CONTINGENCIES**

Sick Leave—The agency records the cost of sick leave when paid. Generally, since sick leave (earned one day per month with unlimited accumulation) is paid only when an employee dies or is absent because of illness, injury, or related family death, there is no liability for sick leave at June 30. The amount of unused sick leave was \$194,905.68 at June 30, 2002.

**NOTE 9. DONATED FACILITIES**

The Department of Children's Services donates utilities, telephone service, and computer use to the East Tennessee Community Services Agency. The value of the donation is not recorded in the financial statements.

**NOTE 10. RISK MANAGEMENT**

The agency is exposed to various risks of loss related to general liability; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters.

**Commercial Coverage**

The agency carries commercial insurance for risks of loss of its personal property and surety bond coverage for risks of employee dishonesty and forgery or alteration. In the past three fiscal years, the agency has had no claims filed with the commercial insurer.

**East Tennessee Community Services Agency**  
**Notes to the Financial Statements (Cont.)**  
**June 30, 2002**

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**State of Tennessee's Claims Award Fund**

The agency participates in the State of Tennessee's Claims Award Fund, an internal service fund in which the state has set aside assets for claims settlement. This fund services all claims for risk of loss to which the state is exposed, including general liability, automobile liability, professional malpractice, and workers' compensation. The fund allocates the cost of providing claims servicing and claims payment by charging a premium to the participating agencies based on a percentage of each agency's expected loss costs, which include both experience and exposures. This charge considers recent trends in actual claims experience of the state as a whole. An actuarial valuation is performed as of each fiscal year-end to determine the fund liability and premium allocation. As a participant in the Claims Award Fund, the agency is subject to the liability limitations under the provisions of the Tennessee Claims Commission Act, Section 9-8-101 et seq., *Tennessee Code Annotated*. Liability for negligence of the agency for bodily injury and property damage is limited to \$300,000 per person and \$1,000,000 per occurrence. The limits under workers' compensation are set forth in Section 50-6-101 et seq., *Tennessee Code Annotated*.

**Health Coverage**

The agency has elected to provide health coverage for its employees through a health plan for eligible local governments and quasi-governmental agencies in Tennessee. The Local Government Group Insurance Fund provides access to affordable health insurance by pooling risk among the groups. The plan provides for greater stability in controlling premium increases and, through a structured managed-care program, helps contain health care costs of participating members.

The plan is administered by the State of Tennessee, using a separately established fund. Premiums of participating units are deposited to this fund and used to pay claims for health care costs of participants, as well as the state's administrative costs of the plan. The agency's obligation under the plan is limited to 80% of the total premiums. The employees are responsible for the remaining 20% of the total premiums. Employees have the option of obtaining insurance through either Blue Cross Blue Shield of Tennessee or John Deere Health Care, Inc. Claims are administered by these companies, which are currently under contract to provide these and other services to the state. Insurance premiums are adjusted at the end of the year based on the claims experience of the pool. Individual pool participants are not assessed additional premiums based on individual claims experience. Employees and providers have 13 months to file medical claims under Blue Cross Blue Shield of Tennessee and John Deere Health Care, Inc.

**East Tennessee Community Services Agency**  
**Notes to the Financial Statements (Cont.)**  
**June 30, 2002**

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**NOTE 11. RELATED-PARTY TRANSACTIONS**

The following related-party transactions occurred during the year ended June 30, 2002:

A board member served as the director of an organization that provided services to the agency. Surplus agency assets were donated to this individual's organization. Also, a board member was affiliated with an organization that had a contract with the agency.

**NOTE 12. NEW ACCOUNTING PRONOUNCEMENTS**

The East Tennessee Community Services Agency has implemented the provisions of Governmental Accounting Standards Board (GASB) Statements 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*; and 37, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments: Omnibus—an amendment of GASB Statements No. 21 and No. 34*. These statements establish new financial reporting requirements and restructure much of the information that governments have presented in the past. Comparability with reports issued in all prior years will be affected. The State of Tennessee implemented this statement, as required, for the year ended June 30, 2002. As a component unit of the state, the East Tennessee Community Services Agency has also implemented the statement for the year ended June 30, 2002.

**East Tennessee Community Services Agency  
Required Supplementary Information  
Schedule of Pension Funding Progress**

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Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded (Funding Excess) AAL (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	Unfunded (Funding Excess) AAL as a Percentage of Covered Payroll [(b-a)/c]
July 1, 2001	\$2,952,772	\$2,952,772	-	100%	\$2,880,109	-
July 1, 1999	\$2,204,715	\$2,204,715	-	100%	\$2,538,970	-
June 30, 1997	\$1,528,048	\$1,528,048	-	100%	\$2,619,886	-

Changes in Actuarial Assumptions

An actuarial valuation was performed as of July 1, 2001, to establish contribution rates as of July 1, 2002. The July 1, 1999, actuarial valuation established contribution rates for the year ended June 30, 2001. Significant actuarial assumptions used in both valuations included a rate of return on investment of present and future assets of 7.5% a year compounded annually and a projected annual increase in post-retirement benefits of 3% of the retiree's most recent benefit. Projected salary increases used in the 2001 valuation were 4.75% a year compounded annually, down from 5.5% a year in the 1999 valuation (no explicit assumption is made regarding the portion attributable to the effects of inflation on salaries). The 2001 valuation projected a 3.5% annual increase in the social security wage base, down from 4.5% in the 1999 valuation.

**Supplementary Information**  
**East Tennessee Community Services Agency**  
**Budgetary Comparison Schedule**  
**General Fund**  
**For the Year Ended June 30, 2002**

	Budgeted Amounts			Variance with Final Budget Over (Under)
	Original	Final	Actual	
Sources of Financial Resources:				
Fund Balance, July 1				
Amount approved for expenditure	\$ 569,397.00	\$ 589,722.00	\$ 589,722.00	
Amount not approved for expenditure	583,262.44	562,937.44	562,937.44	
Revenues				
Department of Children's Services	6,313,774.00	6,309,944.00	5,090,754.23	\$ (1,219,189.77)
TennCare Managed Care Organizations/ Behavioral Health Organizations	629,115.00	629,115.00	745,519.02	116,404.02
Department of Health	776,585.00	797,690.00	519,217.90	(278,472.10)
Tennessee Commission on National and Community Service	-	10,800.00	2,700.00	(8,100.00)
Tennessee Commission on Children and Youth	-	60,000.00	29,242.70	(30,757.30)
In-kind Contributions	-	8,090.00	-	(8,090.00)
Donations	-	-	5,722.00	5,722.00
Interest revenue	-	-	31,320.76	31,320.76
Total sources of financial resources	8,872,133.44	8,968,298.44	7,577,136.05	(1,391,162.39)
Expenditures				
Administration	556,361.00	554,645.00	453,067.07	(101,577.93)
Children and Family Services	3,035,449.00	3,042,449.00	2,383,059.67	(659,389.33)
Family Support Services	2,163,413.00	2,114,043.00	1,643,005.16	(471,037.84)
Flexible Funding	382,900.00	432,900.00	248,656.68	(184,243.32)
Emergency Residential	78,900.00	78,900.00	34,208.63	(44,691.37)
Mountain View	447,840.00	440,585.00	422,626.11	(17,958.89)
TennCare Transportation	595,168.00	595,168.00	388,192.66	(206,975.34)
Children's Special Services	165,823.00	165,823.00	150,522.31	(15,300.69)
Local Health	581,209.00	599,825.00	368,695.59	(231,129.41)
AmeriCorp Promise Fellows	-	39,215.00	8,255.69	(30,959.31)
Community Services	281,808.00	281,808.00	41,445.99	(240,362.01)
Leadership Initiative for Teens	-	60,000.00	29,242.70	(30,757.30)
Total expenditures	8,288,871.00	8,405,361.00	6,170,978.26	(2,234,382.74)
Fund Balance, June 30	\$ 583,262.44	\$ 562,937.44	\$ 1,406,157.79	\$ (843,220.35)

## **APPENDIX**

### **EAST TENNESSEE COMMUNITY SERVICES AGENCY**

Mike Harkleroad, Executive Director

#### **BOARD OF DIRECTORS**

##### Board Officers and Executive Committee Members

Mr. Eddie Davis, Chair  
Mr. John Galloway, Vice-Chair  
Ms. Sherrie Claiborne, Treasurer  
Mr. David Lietzke, Secretary  
Mr. Jerry Wilson, Commissioner's Designee

##### Other Members of the Board of Directors

Ms. Flo Charles  
Mr. James Gaddis  
Mr. Duane Hill  
Ms. Jan Laxton  
Ms. Ann Richardson  
Ms. Paula Rugel  
Mr. Steven Raymond Streibig  
Mr. Rick Thomas  
Mr. Mickey E. Webb  
Mr. Robert A. Webb  
Mr. Jim Wilson